

For personal use only

Holista CollTech Limited

(Formerly CollTech Australia Limited)

ABN 24 094 515 992

Annual Report

30 June 2010

| Contents | Page |
|------------------------------------|-------------|
| Corporate Information | 3 |
| Directors' Report | 4-19 |
| Corporate Governance Statement | 20-27 |
| Auditor's Independence Declaration | 28 |
| Statement of Comprehensive Income | 29 |
| Statement of Financial Position | 30 |
| Statement of Cash Flows | 31 |
| Statement of Changes in Equity | 32 |
| Notes to the Financial Statements | 33-72 |
| Directors' Declaration | 73 |
| Independent Auditor's Report | 74-75 |
| ASX Additional Information | 76-77 |

CORPORATE INFORMATION

ABN 24 094 515 992

Directors

Mr Cheok Huat (Mick) Aw, Non-Executive Chairman – Appointed 7 August 2009
Dato' Dr M Rajendran, Managing Director and Chief Executive Officer – Appointed 10 July 2009
Mr Michael Pixley, Non-Executive Director
Mr Ravindran Govindan, Non-Executive Director
Mr Fathil Bin Mohamed, Non-Executive Director

Chief financial officer

Mr David Wilson

Company secretary

Mr Ben Donovan

Registered office

Holista CollTech Limited
ABN 24 094 515 992
125 Royal Street
East Perth W.A. 6004
Telephone: (+618) 9426 3900
Facsimile: (+618) 9426 3909

Share register

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace, Perth WA 6000
Telephone: (+618) 9323 2000
Facsimile: (+618) 9323 2033

Solicitors

Allion Legal
Level 2, 50 Kings Park Road, West Perth WA 6005

Bankers

National Australia Bank
100 St Georges Terrace, Perth WA 6000

Auditors

HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

Stock Exchange Listings

HCT

DIRECTORS' REPORT

Your directors submit the annual financial report of Hollista CollTech Limited and the entities it controlled during the period (together with "consolidated entity" or "Group") for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Review of operations

Group overview

The 2009/2010 year saw the merger of Colltech Australia Limited and Hollista Biotech Sdn Bhd and the ongoing assimilation of the reverse takeover. The merger in July 2009 allowed the new Group to increase the range of products it could market, whilst gaining access to innovative health supplement products close to commercialization.

Whilst expanding its product range to sell to global markets, the Group also realigned much of the existing business by reducing costs.

The key activities of the year were:

1. Rationalization to lower cost of operations, especially in Perth

The Group reduced costs by consolidating staff levels, while only funding R&D projects which were close to commercialization. All other R&D projects were either terminated or re-designated as joint-ventures with third parties.

The decision was taken to shift most of the Group's operations from Australia to Malaysia to streamline management supervision and reduce costs.

2. Improvement of the current supplement business, specifically in Malaysia

The merger with Hollista Sdn Bhd resulted in increased investment in the Malaysian operations, with a particular focus on developing regional business opportunities in ASEAN countries such as Singapore, Brunei, Thailand and Philippines.

During the year, the Group undertook extensive collaboration with the University of Tsinghua, China, which should lead to some unique products being launched in the coming year.

Pristin – our toxin-free fish oil – continues to grow market share, and remains the No 1 fish oil in Malaysia, according to independent research company Nielsen.

3. Development of the "food grade" or "hydrolyzed" collagen

Ongoing development during the year resulted in significant advances processing hydrolysed collagen, which is produced by digesting intact collagen using enzymes. The ongoing development has resulted in a hydrolysis process which reduces the collagen protein from 300,000 Daltons into small peptides having an average molecular weight of between 3,000 and 10,000 Daltons.

Because of its molecular size, hydrolysed collagen has properties that make it is easy to incorporate into foods and beverages, as well as in powder blends or dietary supplements. Hydrolysed collagen is already available in Asia, particularly North Asia, due the extensive use of collagen in Traditional Chinese Medicine. The use of hydrolyzed collagen also occurs in many cosmetic products such as shampoos, conditioners, soaps, creams, face creams and even in make-up.

Demand for hydrolysed collagen – especially in North Asia – remains strong, with initial interest in the Group's Ovine hydrolysed collagen being in the order of up to 150 tons annually.

DIRECTORS' REPORT (continued)

Following the relocation of R&D of the food-grade collagen from CSIRO Australia to the Science University of Malaysia, we developed a process to enable digestion of the collagen to three-kilogram Daltons using a unique proprietary blend of three "halal" enzymes. This process significantly reduced digestion and extraction process to three hours, at a considerably lower cost.

The Group has also acquired a plot of land inside a "biotech and green technology hub" just outside Kuala Lumpur International Airport. Construction will begin in October 2010 and the facility is to be commissioned and operational by April 2011.

During the past year, the Group received strong levels of interest in the product, with sizable potential orders. The Group continues to aggressively pursue sales leads in China, Hong Kong, Taiwan, Korea, Thailand, Indonesia and in the Malaysian market.

With ongoing refinement, the digestion process can be reduced to an hour, which will allow us to use robotics to maximise efficiency.

4. Further development of "nano collagen"

The Group re-ignited the lapsed "nano collagen" patent by shifting it to the Nanotech Division of the University of Hamdard, in New Delhi, India. As a result, the Group has been able to produce "nano collagen" particles, with filing for a patent expected in October 2010. The validation and testing was done in collaboration with the world-renowned All India Institute Of Medical Sciences (AIIMS).

As part of the ongoing development, the Group continues to work on proving that these nano-particles are safe for humans. This is outsourced to the Indian Institute of Immunology in New Delhi. The work to date has proven the products to be safe on human skin, following studies undertaken at the University of Hamdard.

Ongoing work is being undertaken to develop liposome-encapsulated versions of these freeze-dried particles, resulting in the ability to penetrate the skin. For this, the Group will develop radioactive tagging using the radioisotope Technetium 99, which effectively differentiates these particles from skin's inherent collagen. This work will be done at the Indian Institute of Nuclear Medicine and Allied Sciences (IMNAS).

Upon completion of these steps, to the best of the Group's knowledge, it would be the only company to have developed and demonstrated "nano collagen" with clinical validation.

The Company has been working on the development of this product in collaboration with Professor G. N. Qazi, the Vice Chancellor of the University of Hamdard who is also a member of the Company's Scientific Advisory Board.

5. Further research in the "food ingredient" business and filing of more patents

There is a global explosion of cardiovascular disease, obesity and diabetes caused by the "4S tsunami" namely – starch, sugar, salt and saturated fats. The fast food industry has been blamed for this. During the last year, the Group has undertaken further R&D to provide three solutions to these problems. The solutions are:

- Low glycemic index (GI) bread/ bun (patent filed)
- Low fat chips (patent filed)
- Low sodium salt (patent to be filed)

DIRECTORS' REPORT (continued)

The three products will address a large market, and has been carried out and validated at Oxford University in the United Kingdom under the supervision of the Group's Scientific Advisory Board member, Professor Jaya Henry. The patents held by the Group are co-filed with Professor Henry.

The Group continues to further enhance the value of these patents (both filed and pending) with data and additional documentation.

Upon successful commercialization, these three patents have the potential to position the company as a solution provider to the "4S tsunami threat" for the fast food industry. The potential from these patents has been recognized worldwide, with the Group engaging in discussions with some of the world's largest fast food companies.

6. Finalization of a joint venture in India for herbal extraction of Malaysian and Indian herbs

The Group continues to work with a company in Pune, India, High Tech Biosciences (India) Limited (www.htblindia.com), which has already standardized 127 herbs and has several patents to its credit. The Group has entered into a joint-venture agreement with this group to sell and market herbal extracts in India, Malaysia, China and Australia.

7. Further development of mosquito larvae control business

The Group has executed an exclusive licensing arrangement with Entogenex (www.entogenex.com) which is the worldwide license holder of patents linked to Trypsin Modulating Oostatic Factor (TMOF), a mosquito digestive enzyme. Used in aquatic environments, TMOF is a small protein that interferes with digestion in mosquito larvae, leading to their starvation. No harm to humans or the environment is expected from the use of TMOF as a pesticide active ingredient.

TMOF can be effectively used as agent for mosquito bio-control when combined with a soil bacterium called *Bacillus thuringiensis* subspecies *israelensis*, commonly referred to as Bti. Protein crystal from this bacterium has been used successfully worldwide as a biological pest control agent to combat mosquitoes and black flies.

To date, the cost and need for frequent application have prevented the successful adoption of this method of bio-control. However, trials done in the University of Florida and the Kuala Lumpur City Hall in Malaysia show that combining Bti and TMOF results in reduced dose and frequency of application which can lower costs by between four to eight times.

During the year, the Malaysian Ministry of Health placed two orders with the Group and has called for a large national tender – which the Group is participating in – that closed in September and is likely to be awarded in December 2010.

On both previous occasions, the Group has been successful in winning the orders, beating competitors from the United States, Japan and India. Should the Group win the tender, it will result in increased cash flow and credibility as the Group builds an ASEAN business focusing on areas where dengue is endemic.

Linked to this, we have also filed a joint patent on an extract of the tomato skin and artemesia oil for an all natural insect repellent that is safe and effective.

The Road Ahead

The last 12 months has been a busy period of operational changes and strategic reviews. As a result of these efforts we have laid a foundation for the group going forward:

1) Cost reduction

Costs have been reduced to approximately AUD50,000 per month. This includes a non-cash depreciation of AUD13,000 monthly. Moving forward, the Group does not see a need to build up costs unless there is matching business.

For personal use only

DIRECTORS' REPORT (continued)

2) Sales improvement

The Group continues to improve its operations in Malaysia and is establishing a presence in the ASEAN market. Hydrolyzed collagen will contribute about 10% of the business in the coming financial year with fulfillment of Malaysian orders initially as the plant will only be commissioned in April 2011.

3) Success in R&D

3.1 Food Ingredients

During the last 12 months, the Group filed three patents for food ingredients namely:

- Low GI bread/ bun
- Low fat chips
- Low sodium salt

The Group has already initiated contact with leading fast food chains who are interested in our solution to the "4S Tsunami" of starch, sugar, salt and saturates.

Work will continue in concert with leading food industry think tanks like Veripan (www.veripan.com) and Interflour (www.interflour.net). These companies are well-regarded and have strong relationships and business connections with the fast food industry.

3.2 Food grade collagen

With R&D completed and the collagen plant commissioned, the Group will be in a position to realize sales from interested parties in Malaysia, China, Thailand, Hong Kong, Korea and Taiwan. Work is also underway to reposition our brand of ovine hydrolysed collagen as Ovinex™, being the cleanest and pure mammalian collagen with no cultural and religious barriers that is "Halal" and hence, acceptable to all groups.

Development will continue to innovate on the collagen production process with the aim of driving the digestion to under an hour so the Group can move to an automated factory with robotic arms and a "continuous flow process" that could effectively turn out one ton of collagen a day.

3.3 Nano collagen

As the final liposome encased nano collagen becomes available the Group will undertake sampling processes with Perfect (www.perfect100.com) – China's second largest multi-level company. Once the safety and clinical data are verified, the Group will move to introduce the product commercially to the Chinese population via Perfect.

3.4 Kacip Fatima and Tongkat Ali

We will continue the research in collaboration on the development of these two herbs with the Indian Institute of Integrative Medicine and the National Center for Natural Products Research of the United States.

Plans are also in place to launch a product in Malaysian pharmacies and proceed to set up distribution in the United States via American Biosciences and in Australia via Nutrition Care.

4) Indian Joint Venture

The Group anticipates the joint venture will achieve sales in the coming period, with any revenue being an additional benefit to the Group beyond planned revenue streams.

5) Investor Relations

The Group is conscious of the need to communicate developments as the year progresses, and will embark on improved investor relations to provide shareholders with additional insights into the growth of the Group.

DIRECTORS' REPORT (continued)***Operating results for the year***

The Group reported a net loss after income tax for the reporting year ended 30 June 2010 of \$1,573,000, up on the previous year loss of \$71,000. Revenues from ordinary activities were \$6,235,000, down 1.1% on the previous year of \$6,303,000. For further detail, refer to the Review of Operations on pages 4 to 8.

Review of financial conditions

The likely developments in the Group's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations on pages 4 to 8 of the Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results of those operations in financial years after the current financial year is not predictable at this stage, or may prejudice the interests of Hollista CollTech Ltd. Accordingly this information has not been included in this report.

Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

DIRECTORS' REPORT (continued)**Names, qualifications, experience and special responsibilities****Dato' Dr M Rajendran** B Ph.(Hons) Managing Director - Appointed 10 July 2009

Dato' Dr Rajen began his career as an intern pharmacist at the Kuala Lumpur General Hospital from 1986 – 1987. In 1987 he joined Lee Pharmacy as a community Pharmacist. Over a period of 9 years, Dr Rajen worked for several reputable pharmaceutical companies including Roche and CIBA Pharmaceuticals in various capacities including medical representative, product manager and marketing manager. In 1995, he incorporated Total Health Concept, which was restructured into Holista Group Sdn Bhd in January 2004 and has been Managing Director and major shareholder from inception of this group until its merger with Hollista CollTech Limited in July 2009. He is a prominent figure in the Malaysian biotech industry, an industry which receives significant support and encouragement from the Malaysian government.

Dato' Dr Rajen has been a guest lecturer in alternative medicine at the University of Malaysia, the National University of Malaysia and the International Medical University in Malaysia. He is also a health columnist for the Sunday Times- Malaysia's second largest Sunday newspaper and writes a monthly column on biotech and business for The Edge, Malaysia's largest business weekly.

Dato' Dr Rajen is a member of the Malaysian Ministry of Health Standing Committee for Traditional Medicine and until March 2009 was on the board of Malaysian Herbal Corporation Sdn Bhd, a wholly owned subsidiary of the Malaysian Industry - Government Group for High Technology.

Mr Cheok Huat (Mick) Aw – M.Com., B.Acc., FCA Non-executive Director - Appointed 7 August 2009

Mr Aw holds a Master of Commerce degree from the University of New South Wales and a Bachelor of Accountancy degree from the University of Singapore. He is a Fellow of the Institute of Chartered Accountants in Australia.

Mr Aw has substantial experience with large international accounting firms both in Australia and Singapore. He was previously Vice President of the Institute of Certified Public Accountants in Singapore and has held the position of Chairman of its Accounting Standards Committee. He has been on the boards of several listed companies and was also a council member of the Singapore Confederation of Industries.

He is currently the Managing Director of MS Corporate Finance Pte Ltd, a boutique corporate finance house with a Capital Markets Services license. In this role he has been involved in various corporate restructuring exercises, mergers, acquisitions and equity raisings.

Mr Aw is Chairman of the Group's Audit Committee.

Mr Michael Pixley BBus - Non-executive Director

Mr Pixley has more than 20 years international management experience with strengths in strategic corporate development, entrepreneurial leadership and business and product development across a broad range of industries. As a merchant banker, Mr Pixley successfully completed numerous joint ventures and acquisitions, and in other leadership positions managed and commissioned several greenfield construction projects and led start-up companies to IPO. Mr Pixley is currently Deputy CEO of Natural Fuel Ltd and has previously held overseas directorships with Transocean Securities, Co-don Asia Pacific, CPI Inc and Imagine Interactive Pte Ltd. Mr Pixley was CollTech's Chief Executive from February 2004 to September 2006.

In the 3 years immediately before the end of the financial year Mr Michael Pixley also served as a director of the following listed companies: Natural Fuel Limited*, Pan Asia Resources Limited* (* denotes current directorships).

Mr Pixley is a member of the Group's Nomination Committee and Chairman of the Remuneration Committee.

DIRECTORS' REPORT (continued)**Mr Ravindran Govindan** - Non-executive Director

Mr Govindan is a very experienced businessman having co-founded companies in retail, biotech, medical devices, information technology, emerging technologies, real estate and manufacturing. He provides strategic advice on Asia Pacific Region for Latona Associates Inc, a private investment and financial advisory firm based in New York, USA and was the group President of the Fisher Scientific group of companies in the Asia Pacific Region.

His current portfolio encapsulates several chairmanships, board memberships and entrepreneurial ventures that have launched into successful public company listings such as Time Medical Inc in USA and ProcureChina Pte Ltd, I-Flapp Technologies Pte Ltd and I Nuovi Cosmetics in Singapore. Mr Govindan also provides business consultancy to private and public enterprises, financial institutions and highly influential individuals in this region. In the 3 years immediately before the end of the financial year Mr Ravindran Govindan also served as a director of the following listed companies: Costarella Design Limited*, MedTech Global Limited*, Agenix Limited and Magnus Energy Group Limited. (* denotes current directorships)

Mr Govindan is a member of the Group's Audit and Risk Committee, a member of the Remuneration Committee and Chairman of the Nomination Committee.

Dr Fathil Bin Mohamed PhD- Non-executive Director

Dr Fathil has a PhD in Microbiology and Genetic Engineering, and has over 25 years as an entrepreneur. Dr Fathil is a former lecturer at the National University of Malaysia in the areas of microbiology, molecular biology and food science. He has first hand and in-depth experience in food manufacturing and global marketing and was one of the first to introduce domestic Malaysian savoury products onto the shelves of supermarkets across the globe.

Dr Fathil was instrumental in the development of the Halal Certification and Standards in Malaysia, and worked closely with Jabatan Kemajuan Islam Malaysia ("JAKIM") during this time. Dr. Fathil is one of the pioneers and the key promoter of the concept of Quality and Traceability of Halal products for the Muslim market. During the period he was constantly engaged on lecture tours propagating the concept to parts of Europe, Middle East countries, the United States, Thailand and the Philippines.

Dr Fathil is a member of the Group's Nomination, Remuneration and Audit Committees.

Mr Stephen Carter – Non-Executive Chairman – Resigned 11 November 2009

Chief Financial Officer

Mr David Wilson BA(Hons), FCCA, MBA, MIA – Appointed 01 February 2010

Mr Wilson has an Honours degree in Psychology from the University of Plymouth, and holds a Master of Business Administration degree from Oxford Brookes University. He is a Fellow of the Chartered Association of Certified Accountants and a Member of the Malaysian Institute of Accountants.

He was Finance Director of MFE Formwork Technology Sdn. Bhd. for 13 years, a Malaysian subsidiary of a UK parent company, involved in construction and manufacturing. Prior to that he was Chief Accountant at Martin-Baker Aircraft Co. Ltd. for 7 years based just outside of London, a company that builds ejection seats for 70% of the 'western world' market of military aeroplanes.

He also has 3 years of experience at GD. Searle & Co. Ltd, an American Pharmaceutical company, based in their European Headquarters in the UK.

DIRECTORS' REPORT (continued)**Company Secretary**

Mr Ben Donovan B. Com (Hons), ACIS - Appointed 20 November 2009

Mr Donovan holds a Bachelor of Commerce (Honours) in finance and commercial law. He is a Chartered Secretary and currently provides consultancy services on ASX listing rule and company secretarial matters. Mr Donovan spent over two years with the Perth office of ASX, providing ASX Listing Rule advice to listed companies. Prior to joining the ASX, Mr Donovan worked at a boutique stockbroking institution in Perth on various corporate advisory and stock broking matters.

Mr Donovan is currently a non-executive director of Webspay Limited.

Interests in the shares and options of the company and related bodies corporate

The following relevant interests in shares and options of the company or a related body corporate were held by the directors as at the date of this report.

| Directors | Number of options over ordinary shares | Number of fully paid ordinary shares |
|--------------------------|--|---|
| Mr. Cheok Huat (Mick) Aw | - | 4,000,000 |
| Dato' Dr M Rajendran | - | 77,000,000 |
| Mr Michael Pixley | 200,000 | 793,333 |
| Mr Ravindran Govindan | 200,000 | 2,061,119 |
| Dr Fathil Bin Mohamed | 200,000 | 4,186,274 |

All options are exercisable at \$0.40 on or before 23 October 2011.

No share options of Hollista CollTech Limited were granted to directors or the five most highly remunerated officers of the company during or since the end of the financial year as part of their remuneration.

No ordinary shares have been issued by the Company during or since the end of the financial year as a result of the exercise of an option.

At the date of this report unissued ordinary shares of the Company under option are:

| <i>Expiry Date</i> | <i>Exercise price</i> | <i>Number of shares</i> |
|--------------------|-----------------------|-------------------------|
| 30/06/2011 | \$0.40 | 660,000 |
| 22/08/2011 | \$0.40 | 50,000 |
| 23/10/2011 | \$0.40 | 800,000 |
| | | 1,510,000 |

On 30 July 2010, 13,000 employee options exercisable at \$1.00 expired.

Dividends

No dividends have been paid or declared since the start of the financial year and/or the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year involve the production and sale of high-grade collagen and other biomaterials from animal sources in Australia. During the year, Colltech Australia Limited acquired all of the issued capital of Hollista Biotech Sdn Bhd, a group based in Malaysia that is involved in the development, branding, distribution and sale of natural products.

DIRECTORS' REPORT (continued)**Risk management**

The group takes risk management seriously and has put in place the following procedures:-

Oversight: An Audit Committee has been established to direct, review and initiate corrective action in matters of internal control and minimise risk exposures compatible with a group company of this size and nature.

Risk Profile: An exercise has been performed to assess the various business risks that impinge upon the group. They have been categorized according to which part or parts of the business would be effected, what controls might be put in place and whether the resulting levels of exposure are acceptable.

Risk Management: The group has taken decisions as to how it should manage the various categories of risk exposure and they include the imposition of Standard Operating Procedures (SOP's) for routine business transactions; mitigation policies to lessen or obviate risks such as Insurance Policies and formal long term Agreements with critical suppliers; and hedging arrangements if applicable.

Compliance and Control: Standard Operating Procedures have been drawn up, circulated and regularly monitored to ensure adherence to company policy. They include the various cash, purchasing, sales, and payment cycles, and payroll. Levels of Authority have been set, divisions of duty are made and multiple signature approvals imposed.

Regular checks are made by management to ensure that these controls are indeed in place and complied with.

Assessment of Effectiveness: The management in the first instance assess the effectiveness of the risk management policies and in conjunction with the Audit Committee and External Auditors, instruct improvements to be put in place.

Significant changes in the state of affairs

On 10 July 2009, Colltech Australia Limited acquired 100 % of Holista Biotech Sdn Bhd, a manufacturer of health supplements and lifestyle products. The purchase was satisfied by the issue of 770,000,000 ordinary shares in exchange for all the Holista Biotech Sdn Bhd ordinary shares owned by Dato' Dr Rajendran.

Due to the nature of the acquisition, the acquisition of Holista Biotech Sdn Bhd was considered a reverse acquisition for accounting purpose.

Significant events after balance date

On 10 July 2010, 77,000,000 fully paid ordinary shares were released from escrow.

On 30 July 2010, 13,000 employee options exercisable at \$1.00 expired.

On 31 August 2010, the Group announced the appointment of a scientific advisory board.

On 7 September 2010, the Group announced the appointment of Dato' Dr M Rajendran as Managing Director and Chief Executive Officer for a period of three years backdated to 10 July 2009.

On 24 September 2010, the Group announced it had lodged a patent for low fat chips.

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

Hollista CollTech Limited has operated under environmental licence 7998/1 issued by the Western Australian Department of Environment as prescribed under the Environmental Protection Act 1986. The licence relates to collagen extraction and purification, waste water storage and wastewater disposal pipeline to the Collie Power Station marine disposal outfall tank. During the financial year the Group's operations were materially conducted in accordance with the guidelines of that licence.

DIRECTORS' REPORT (continued)

Other than mentioned above, during and since the end of the financial year, the directors are not aware of any particular or significant environmental issues which have been raised in relation to the Group's operations.

Indemnification and insurance of Directors and Officers

Hollista Colltech Limited has agreed to indemnify all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year Hollista Colltech Limited has paid a premium of \$18,071 in respect of a contract to insure the directors and officers of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. (2009: \$Nil)

Remuneration report (Audited)

This report outlines the remuneration arrangements in place for the key management personnel of Hollista CollTech Limited (the "Group") for the financial year ended 30 June 2010. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

Key Management Personnel**(i) Directors**

| | |
|--------------------------|--|
| Mr. Cheok Huat (Mick) Aw | - Non-Executive Director - Appointed 7 August 2009 |
| Dato' Dr M Rajendran | - Managing Director and Chief Executive Officer - Appointed 10 July 2009 |
| Mr Michael Pixley | - Non-Executive Director |
| Mr Ravindran Govindan | - Non-Executive Director |
| Dr Fathil Bin Mohamed | - Non-Executive Director |
| Mr Stephen Carter | - Non-Executive Chairman - Resigned 11 November 2009 |

(ii) Executives

| | |
|---|------------------------------|
| Mr David Wilson (Chief Financial Officer) | – appointed 01 February 2010 |
| Ms Deborah Cooper (General Manager) | – resigned 31 May 2010 |
| Mr Alan Boys (Chief Financial Officer /Company Secretary) | – resigned 20 November 2009 |
| Mr Ben Donovan (Company Secretary) | – appointed 20 November 2009 |

Except as noted, the named persons held their current position during the whole of the financial year and up to the date of this report unless stated otherwise.

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

DIRECTORS' REPORT (continued)**Remuneration committee**

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the CEO and the executive team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 1 December 2003 when shareholders approved an aggregate remuneration of \$ 200,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. An additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

The remuneration of non-executive directors for the year ended 30 June 2010 is detailed in Table 1 of this report.

Senior manager and executive director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the 5 most highly remunerated Group and company executives is detailed in Table 2.

Variable Remuneration

The aggregate of annual payments available for executives across the Group is subject to the approval of the Remuneration Committee. No annual bonus payments were made during the year (2009: nil).

DIRECTORS' REPORT (continued)**Employment Contracts**

On 7 September 2010, the Group entered into an employment agreement with Dato Dr. Rajen to act as Chief Executive Officer and Managing Director. A summary of the terms of his employment are as follows:

| | Dato Dr. Rajen |
|---|--|
| a) Commencement date | 10 July 2009 |
| b) Termination date of contract | Initial 3 year period. |
| c) Period of notice for resignation/termination | 3 months |
| d) Remuneration | RM540,000 (A\$190,000) |
| e) Termination - with cause | The Company may terminate at any time without notice if serious misconduct has occurred. Where termination with cause occurs employees are only entitled to entitlements up to the date of termination and any unvested options will immediately be forfeited. |
| f) Termination - without cause | The Agreements provides for the termination of the agreement by paying a severance payment of up to three months in addition to notice period. |

DIRECTORS' REPORT (continued)

TABLE 1

Remuneration report (continued)

| | | Short-term Employee benefits | | | Post-employment benefit | | Equity | | |
|--|------|------------------------------|---------|------------------------|-------------------------|-------|---------------|---------|-----------------------|
| | | Salary & Fees | Bonuses | Non- Monetary Benefits | Super-annuation | Other | Share options | Total | Performance Related % |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Mr Michael Pixley | 2010 | 34,167 | - | - | 2,400 | - | - | 36,567 | - |
| | 2009 | 32,000 | - | - | 2,880 | - | 27,000 | 61,880 | |
| Mr Ravidran Govindan | 2010 | 33,000 | - | - | - | - | - | 33,000 | - |
| | 2009 | 10,666 | - | - | - | - | 27,000 | 37,666 | |
| Dr Fathil Bin Mohamed | 2010 | 32,500 | - | - | - | - | - | 32,500 | - |
| | 2009 | 10,666 | - | - | - | - | 27,000 | 37,666 | |
| Mr Cheok Huat (Mick) Aw (appointed 07/08/2009) | 2010 | 18,833 | - | - | - | - | - | 18,833 | - |
| | 2009 | - | - | - | - | - | - | - | - |
| Dato' Dr M Rajendran (appointed 10/07/2009) | 2010 | 180,965 | - | - | 7,962 | - | - | 188,927 | - |
| | 2009 | - | - | - | - | - | - | - | - |
| Mr Stephen Carter (resigned 11/11/2009) | 2010 | 27,084 | - | - | - | - | - | 27,084 | - |
| | 2009 | 65,000 | - | - | 5,850 | - | 27,000 | 97,850 | - |

Mr. Stephen Carter was paid by way of fees to Pearlcove Investments Pty Ltd

DIRECTORS' REPORT (continued)

TABLE 2

Remuneration report (continued)

| | | Short-term Employee benefits | | | Post-employment benefit | | Equity | | |
|---|------|------------------------------|---------------|------------------------------|-------------------------|-------------|---------------------|-------------|-----------------------|
| | | Salary & Fees \$ | Bonuses \$ | Non- Monetary Benefits \$ | Super-annuation \$ | Other \$ | Share options \$ | Total \$ | Performance Related % |
| Dr Deborah Cooper (resigned 31/05/2010) | 2010 | 170,709 | - | - | 13,875 | - | - | 184,584 | - |
| | 2009 | 185,000 | - | - | 16,650 | - | - | 201,650 | - |
| Alan Boys (resigned 20/11/2009) | 2010 | 38,750 | - | - | - | - | - | 38,750 | - |
| | 2009 | 88,900 | - | - | - | - | - | 88,900 | - |
| Ben Donovan (appointed 20/11/2009) | 2010 | 44,000 | - | - | - | - | - | 44,000 | - |
| | 2009 | - | - | - | - | - | - | - | - |
| David Wilson (appointed 01/02/2010) | 2010 | 24,583 | - | - | 2,895 | - | - | 27,478 | - |
| | 2009 | - | - | - | - | - | - | - | - |

Mr. Alan Boys remuneration was paid by way of fees to Dubois Group Pty Ltd

DIRECTORS' REPORT (continued)**Remuneration report (continued)*****Details of employee share option plans***

The Group believes that encouraging its directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Group's Employee Share Option Plan.

The Group has adopted an Employee Share Option Plan for the purpose of recognising the efforts of, and providing incentives to, employees of the Group. Options are granted under the Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested and made exercisable in defined tranches to reflect the Group's development strategy and align the interests of directors and executives to those of shareholders. Options are granted to directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

Further details of the employee share option plan are included in Note 15.

Bonuses

No bonuses were granted to the directors during the year.

There was no share-based compensation or options paid to directors or executives during the current financial year.

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Directors' Meeting | Audit Committee | Nomination Committee | Remuneration Committee |
|--|-------------------------------|----------------------------|---------------------------------|-----------------------------------|
| Number of Meetings | 10 | 2 | 0 | 4 |
| Number of Meetings Attended | | | | |
| Mr Stephen Carter (resigned 11/11/2009) | 4 | - | - | - |
| Mr Michael Pixley | 10 | (i) | - | 4 |
| Mr Ravidran Govindan | 7 | 2 | - | 4 |
| Dr Fathil Bin Mohamed | 10 | 2 | - | 4 |
| Dato. Dr. M. Rajendran | 10 | (by invite)(i) | (i) | (i) |
| Mr Cheok Huat (Mick) Aw | 9 | 2 | (i) | (i) |

(i) – indicates they are not a member of the committee.

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

DIRECTORS' REPORT (continued)

Rounding off of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and indicated by \$'000's) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

Auditor Independence and Non-Audit Services

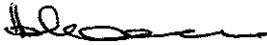
Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 28 and forms part of this directors' report for the year ended 30 June 2010.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 21 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.



Mr Mick Aw

Director

Perth, Western Australia

30 SEPTEMBER 2010

CORPORATE GOVERNANCE STATEMENT

Hollista CollTech Limited ("**Group**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. During the year, the Group made amendments to its Corporate Governance Statement. These policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the Group has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Group's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Group's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Disclosure of Corporate Governance Practices

Summary Statement

| | ASX P & R ¹ | If not, why not ² | | ASX P & R ¹ | If not, why not ² |
|---------------------------------|---------------------------|------------------------------|---------------------------------|---------------------------|------------------------------|
| Recommendation 1.1 | ✓ | | Recommendation 4.3 | ✓ | |
| Recommendation 1.2 | ✓ | | Recommendation 4.4 ³ | n/a | n/a |
| Recommendation 1.3 ³ | n/a | | Recommendation 5.1 | ✓ | |
| Recommendation 2.1 | ✓ | | Recommendation 5.2 ³ | n/a | n/a |
| Recommendation 2.2 | ✓ | | Recommendation 6.1 | ✓ | |
| Recommendation 2.3 | ✓ | | Recommendation 6.2 ³ | n/a | n/a |
| Recommendation 2.4 | ✓ | | Recommendation 7.1 | ✓ | |
| Recommendation 2.5 | ✓ | | Recommendation 7.2 | ✓ | |
| Recommendation 2.6 ³ | ✓ | | Recommendation 7.3 | ✓ | |
| Recommendation 3.1 | ✓ | | Recommendation 7.4 ³ | n/a | n/a |
| Recommendation 3.2 | ✓ | | Recommendation 8.1 | ✓ | |
| Recommendation 3.3 ³ | n/a | n/a | Recommendation 8.2 | ✓ | |
| Recommendation 4.1 | ✓ | | Recommendation 8.3 ³ | n/a | n/a |
| Recommendation 4.2 | ✓ | | | | |

1 Indicates where the Group has followed the Principles & Recommendations.

2 Indicates where the Group has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Website Disclosures

Further information about the Group's charters, policies and procedures may be found at the Group's website at www.colltech.com.au, under the section marked Corporate Governance. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the Recommendations to which they relate, are set out below.

| Charters | Recommendation(s) |
|--|--------------------------|
| Board | 1.3 |
| Audit Committee | 4.4 |
| Nomination Committee | 2.6 |
| Remuneration Committee | 8.3 |
| | |
| Policies and Procedures | |
| Selection and Appointment of New Directors | 2.6 |
| Performance Evaluation of the Board, Board Committees and Individual Directors | 1.2, 2.5 |
| Policy for Trading in Group Securities (summary) | 3.2, 3.3 |
| Code of Conduct | 3.1, 3.3 |
| Compliance Procedures for ASX Listing Rule Disclosure Requirements (summary) | 5.1, 5.2 |
| Selection, Appointment and Rotation of External Auditor | 4.4 |
| Shareholder Communication Strategy | 6.1, 6.2 |
| Risk Management Policy (summary) | 7.1, 7.4 |

Disclosure – Principles & Recommendations

The Group reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Group has established the functions reserved to the Board and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Group through its key functions of overseeing the management of the Group, providing overall corporate governance of the Group, monitoring the financial performance of the Group, engaging appropriate management commensurate with the Group's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Group has established the functions delegated to senior executives and has set out these functions in its Board Charter. Senior executives are responsible for supporting the Chief Executive Officer and assisting the Chief Executive Officer in implementing the running of the general operations and financial business of the Group, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the Group's materiality thresholds at first instance to the Chief Executive Officer or, if the matter concerns the Chief Executive Officer, then directly to the Chair or the lead independent director, as appropriate.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The Chair is responsible for evaluating the senior executives. The Chair evaluates the senior executives by holding informal discussions with the senior executives on an ongoing basis, as required. It is envisaged that in the coming period, a more formal process for evaluation will be implemented.

Recommendation 1.3: Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

Disclosure:

During the Reporting Period a review of senior executives occurred with the Managing Director reporting to the board via informal evaluations.

Principle 2 – Structure the board to add value

Recommendation 2.1: A majority of the Board should be independent directors. As at 30 June 2010 the following directors were appointed to the Board of the Group:

| Name | Position | Independent |
|-------------------------|------------------------|-------------|
| Mr Cheok Huat (Mick) Aw | Non-executive Director | Yes |
| Dato' Dr M Rajendran | Executive Director | No |
| Mr Michael Pixley | Non-executive Director | Yes |
| Mr Ravindran Govindan | Non-executive Director | Yes |
| Dr Fathil Bin Mohamed | Non-executive Director | Yes |

An independent director is a non-executive director and;

- Is not a substantial shareholder of the Company or an officer of or directly or indirectly associated with a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- Within the past three years has not been a principal of a material professional advisor or a material consultant to the Company or an employee associated with a such a material service provider or advisor; and,
- Does not have a material contractual relationship with the Company other than as a director of the Company.

Disclosure:

The majority of the board are independent directors.

Recommendation 2.2: The Chair should be an independent director.

Disclosure:

The independent Chair of the Board is Mr Cheok Huat (Mick) Aw.

Recommendation 2.3: The roles of the Chair and Chief Executive Officer (or equivalent) should not be exercised by the same individual.

Disclosure:

During the Reporting Period the Chief Executive Officer, Dato' Dr M Rajendran, was not Chair of the Board.

Recommendation 2.4: The Board should establish a Nomination Committee.

Disclosure:

The Nomination Committee consists of 3 independent directors, being Mr Govindran as Chairman, along with Dr Fathil and Mr Pixley. The Committee has a charter setting out the criteria and responsibilities for the selection of new directors.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Disclosure:

The Chair evaluates the Board, individual directors, any applicable committees and the Managing Director / Chief Executive Officer by holding informal discussions with these parties on an ongoing basis, as required. Each new director is required to complete an induction process.

Recommendation 2.6: Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

Disclosure:

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

Identification of Independent Directors

The independent directors of the Company are Mr Aw, Mr Pixley, Mr Govindran and Dr Fathil. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Group's materiality thresholds. The materiality thresholds are set out below.

Group's Materiality Thresholds

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Group's Board Charter:

- Statement of Financial Position items are material if they have a value of more than 10% of net assets.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Group, involve a breach of legislation, are outside the ordinary course of business, they could affect the Group's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative tests, are essential to the activities of the Group and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Statement concerning availability of Independent Professional Advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Group will pay the reasonable expenses associated with obtaining such advice.

Nomination Matters

The Nomination Committee met during the Reporting Period to discuss the appointment of Dato. Dr. Rajen as Managing Director and Chief Executive Officer.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Group has established a Code of Conduct as to the practices necessary to maintain confidence in the Group's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Group has established a policy concerning trading in the Group's securities by directors, senior executives and employees. The policy includes blackout periods where no trading in Group securities shall take place between:

- 1 July and the lodgement of the annual results;
- 1 January and the lodgement of the half year results;
- 1 April and the lodgement of the quarterly results for the period ending 31 March; and
- 1 October and the lodgement of the quarterly results for the period ending 30 September.

If directors including the Managing Director wish to trade securities outside the blackout period, they must obtain approval from the Chairman. Employees must obtain the approval of the Managing Director, and the Chairman must obtain the approval of the board.

Recommendation 3.3: Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1 and Recommendation 4.2:

The Board should establish an Audit Committee and the Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

Disclosure:

The Board has established an Audit committee that is structured in accordance with Recommendation 4.2 with the exception of Mr Aw who is chair of both the board and the committee. This is due to Mr Aw's experience in audits. The committee members consist of Mr Aw as chairman, together with Mr Govindran and Dr Fathil.

Recommendation 4.3: The Audit Committee should have a formal charter.

Disclosure:

The Group has adopted an Audit Committee Charter which sets out the responsibilities and role of the Committee and how it reports to the board.

Recommendation 4.4: Companies should provide the information indicated in the *Guide to reporting on Principle 4*.

Disclosure:

The Audit Committee, held 2 meetings during the Reporting Period. The Audit Committee has adopted an Audit Committee Charter.

Details of each of the director's qualifications are set out in the Directors' Report. The Chairman of the Audit Committee has formal qualifications in the area of audit, while the other members have industry knowledge and experience and consider themselves to be financially literate. Further, the Group's Audit Committee Charter provides that the Board meet with the external auditor without management present, as required.

The Group has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Group

through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Group's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Group has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance. The policies also include examples of disclosure requirements and who can communicate with media outlets.

Recommendation 5.2: Companies should provide the information indicated in the *Guide to reporting on Principle 5*.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The Group has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings. This includes all relevant information being disclosed on the Group's website.

Recommendation 6.2: Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Group's risk profile. Under the policy, the Board is responsible for approving the Group's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Chief Executive Officer, who is responsible for identifying, assessing, monitoring and managing risks. The Chief Executive Officer and the Chief Financial Officer are responsible for updating the Group's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Chief Executive Officer may have unrestricted access to Group employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

- the Board has established authority limits for management which, if exceeded, will require prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Group's continuous disclosure obligations; and

- the Board has adopted a corporate governance manual which contains other policies to assist the Group to establish and maintain its governance practices.

On 30 September 2009, the Board resolved to review, formalise and document the management of its material business risks. An updated register of material risks has since been documented and is reviewed by the Audit Committee.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

Management report to the Board as to the effectiveness of the Group's management of its material business risks via the Audit Committee meetings. During the Reporting Period, as a result of the reverse acquisition of Hollista Sdn Bhd in July 2009, the Board required management to design and implement a process for managing the Group's material business risks. It is noted that following the end of the Reporting Period, a more formal process has been implemented.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Recommendation 7.4: Companies should provide the information indicated in the *Guide to reporting on Principle 7*.

Disclosure:

The Board has received an informal report from management under Recommendation 7.2.

The Board has received the assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee.

Disclosure:

The Group has established a Remuneration Committee. The Committee has adopted a formal charter setting out the responsibilities and considerations in determining remuneration of executives and non-executives. The Committee consists of Mr Pixley as Chairman, Mr Govindran and Dr Fathil. All of whom are independent directors.

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Disclosure:

Non-executive directors are remunerated at a fixed fee for time, meetings attended and their responsibilities to various committees. Remuneration for non-executive directors is not linked to the performance of the Group. Non-executive directors may be issued options, to minimise the cash outgoings of the Group and to better align the interests of the company and its stakeholders. The grant of any options will be subject to prior shareholder approval.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

Recommendation 8.3: Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

Disclosure:

Details of remuneration, including the Group's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The Remuneration Committee met 4 times during the Reporting Period to amongst other items, discuss the employment terms of the Managing Director / CEO. To assist the Remuneration Committee, it has adopted a Remuneration Committee Charter.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

During the Reporting Period the Group did not publicly disclose its policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes. However, the Group's position is that such transactions are prohibited.

For personal use only

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Holista CollTech Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Holista CollTech Limited.



**Perth, Western Australia
30 September 2010**

**W M CLARK
Partner, HLB Mann Judd**

For personal use only

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

| | Notes | Consolidated | |
|--|-------|----------------|----------------|
| | | 2010 \$'000 | 2009 \$'000 |
| Revenue | 2 | 6,235 | 6,303 |
| Other Income | 2 | 495 | 967 |
| Change in inventories of finished goods and work in progress | 2 | 223 | 54 |
| Raw Materials and consumables used | 2 | (2,415) | (2,263) |
| Employee benefits expense | | (1,958) | (1,301) |
| Depreciation and amortisation expense | 9 | (255) | (147) |
| Impairment of plant & equipment | 9 | (21) | - |
| Impairment of goodwill | 10 | (920) | - |
| Borrowing costs expense | | (337) | (387) |
| Other expenses | 2 | (2,614) | (3,294) |
| Loss before income tax expense | | (1,567) | (68) |
| Income tax expense | 3 | (6) | (3) |
| Net loss for the year | | (1,573) | (71) |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | 33 | 9 |
| Total comprehensive loss for the year | | (1,540) | (62) |
| Basic loss per share (cents per share) | 5 | 1.30 cents | 0.09 cents |
| Diluted loss per share (cents per share) | 5 | 1.30 cents | 0.09 cents |

The accompanying notes form part of these financial statements

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010**

| | Notes | Consolidated | |
|--------------------------------------|-------|---------------|--------------|
| | | 2010 | 2009 |
| | | \$'000 | \$'000 |
| Current assets | | | |
| Cash and cash equivalents | 6 | 3,194 | 2,340 |
| Trade and other receivables | 7 | 1,477 | 1,224 |
| Inventories | 8 | 1,420 | 829 |
| Other | | 33 | - |
| Total current assets | | 6,124 | 4,393 |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 4,445 | 2,009 |
| Intangible assets | 10 | 22 | - |
| Total non-current assets | | 4,467 | 2,009 |
| Total assets | | 10,591 | 6,402 |
| Current liabilities | | | |
| Trade and other payables | 11 | 759 | 916 |
| Borrowings | 12 | 2,576 | 2,532 |
| Current tax liabilities | 3 | 38 | 47 |
| Other liabilities | 11 | 993 | 880 |
| Total current liabilities | | 4,366 | 4,375 |
| Non-current liabilities | | | |
| Borrowings | 12 | 1,548 | 823 |
| Other | 12 | 31 | - |
| Total non-current liabilities | | 1,579 | 823 |
| Total liabilities | | 5,945 | 5,198 |
| Net assets | | 4,646 | 1,204 |
| Equity | | | |
| Issued capital | 13 | 7,554 | 2,572 |
| Reserve | 14 | 61 | 28 |
| Accumulated losses | 14 | (2,969) | (1,396) |
| Total equity | | 4,646 | 1,204 |

The accompanying notes form part of these financial statements

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010**

| | Notes | Consolidated | |
|--|-------|----------------|----------------|
| | | 2010 \$'000 | 2009 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers | | 6,292 | 6,326 |
| Payments to suppliers and employees | | (8,122) | (6,120) |
| Interest received | | 50 | - |
| Finance costs | | (337) | (371) |
| Government grant | | 157 | 454 |
| Income tax paid | | (21) | - |
| Net cash (used in)/generated from operating activities | 6 | (1,981) | 289 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (10) | (82) |
| Cash acquired on acquisition of subsidiary | | 408 | - |
| Net cash generated from/(used in) investing activities | | 398 | (82) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 2,975 | - |
| Proceeds from borrowings | | 309 | 553 |
| Repayment of borrowings | | (1,080) | (476) |
| Net cash provided by financing activities | | 2,204 | 77 |
| Net increase in cash held | | 621 | 284 |
| Cash at the beginning of the financial year | | 1,755 | 1,462 |
| Effect of currency fluctuations on cash | | 33 | 9 |
| Cash at the end of the financial year | 6 | 2,409 | 1,755 |

The accompanying notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010**

| | Issued Capital \$'000 | Accumulated Losses \$'000 | Reserve \$'000 | Total \$'000 |
|---|-----------------------------|---------------------------------|-------------------|-----------------|
| Balance as at 1 July 2008 | 2,572 | (1,325) | 19 | 1,266 |
| Loss for the year | - | (71) | - | (71) |
| Other comprehensive income for the year | - | - | 9 | 9 |
| Balance as at 30 June 2009 | 2,572 | (1,396) | 28 | 1,204 |
| Balance as at 1 July 2009 | 2,572 | (1,396) | 28 | 1,204 |
| Loss for the year | - | (1,573) | - | (1,573) |
| Other comprehensive income for the year | - | - | 33 | 33 |
| Shares issued during the year | 4,982 | - | - | 4,982 |
| Balance as at 30 June 2010 | 7,554 | (2,969) | 61 | 4,646 |

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Group under ASIC Class Order 98/100. The Group is an entity to which the class order applies.

The company is a listed public company, incorporated in Australia and operating in Australia and Malaysia. The principal activities of the entities within the consolidated entity during the year involve the production and sale of high-grade collagen and other biomaterials from animal sources in Australia. During the year, Colltech Australia Limited acquired all of the issued capital of Holista Biotech Sdn Bhd, a group based in Malaysia that is involved in the development, branding, distribution and sale of natural products.

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

b) Adoption of New and Revised Standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements and changes made by AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity and Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segment reporting – new AASB 8 *Operating Segments*
- Financial Instruments – revised AASB 7 *Financial Instruments: Disclosures*
- Borrowing Costs – revised AASB 123 *Borrowing Costs*

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

c) Statement of Compliance

The financial report was authorised for issue on 30 September 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Basis of Consolidation

AASB 127 (revised) required the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with any minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must be re-measured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to any non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

e) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Business Combinations (continued)

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

f) Reverse Acquisition Accounting

As a result of the acquisition of Hollista Sdn Bhd being a reverse acquisition, the financial statements presented in this report represent a continuation of financial statements of Hollista Biotech Sdn Bhd. and comprise the following:

- Statement of Financial Position:
 - Comparative Statement of Financial Position – Hollista Biotech Sdn Bhd and its controlled entities as at 30 June 2009, being the immediately preceding annual reporting period.
 - Current Statement of Financial Position – Hollista CollTech Ltd and its controlled entities as at 30 June 2010, including the reverse acquisition of Hollista Biotech Sdn Bhd which comprises:
 - The historical Statement of Financial Position of Hollista Biotech Sdn Bhd
 - The Statement of Financial Position of Hollista CollTech Limited based on fair value at acquisition date (10 July 2009) and transactions since that date at historical cost.
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity:
 - Comparative financial information – Hollista Biotech Sdn Bhd and its controlled entities for the period from 1st July 2008 to 30th June 2009.
 - Current period financial information - Hollista Biotech Sdn Bhd and its controlled entities for the period from 1st July 2009 to 30th June 2010, and Hollista CollTech Limited for the period from 10 July 2009 to 30 June 2010.

The legal structure of the Hollista CollTech Limited subsequent to the acquisition of Hollista Biotech Sdn Bhd will be that Hollista Colltech Limited will remain as the parent entity. However, the principles of reverse acquisition accounting apply where the owner of the acquired entity (in this case, Hollista Biotech Sdn Bhd) obtains control of the acquiring entity (in this case, Hollista CollTech Limited) as a result of the businesses' combination. Under reverse acquisition accounting, the consolidated financial statements are issued under the name of the legal parent (Hollista CollTech Limited) but are a continuation of the consolidated financial statements of the legal subsidiary (Hollista Biotech Sdn Bhd), with the assets and liabilities of the legal subsidiary being recognised and measured at their pre-combination carrying amounts rather than their fair values.

g) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) **Critical accounting judgements and key sources of estimation uncertainty (continued)**

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of plant & equipment located at Collie:

During the year, the Collie plant remained on care and maintenance. The Group has held discussions with several local and overseas parties regarding the potential to form a joint venture or recommission on the plant with an upgrade of facilities. The Group is exploring the potential of using the existing Collie plant to process the raw materials required in the nano collagen process, which forms the basis of cosmetic grade collagen. The Group has also held discussions with local parties on using the plant to produce several of its patented functional food ingredients. There are interests in cosmetic collagen from Multi Level Marketing Chinese Companies which we are currently attempting to sell food grade collagen to. The Collie plant was purpose built for the production of cosmetic collagen.

Exploration and evaluation costs carried forward

The recoverability of the carrying amount of the Collie Plant carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the "value in use". In determining value in use, future cash flows are based on:

- Estimated production and future sales levels;
- Estimated future prices of collagen and food products;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

Impairment of goodwill and intangibles with indefinite useful lives:

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 10.

h) **Going Concern**

The financial statements are prepared on a going concern basis.

At balance date, the Group had a surplus of current assets over current liabilities of \$1,758,000.

The Board of the Group considers that based on its assessment of operating cashflows, that it is appropriate to the Group's current circumstances, to prepare its financial statements on a going concern basis.

i) **Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Hollista CollTech Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Segment Reporting (continued)

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Group as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

j) Foreign Currency Transactions and Balances

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Malaysian subsidiaries (refer to Note 19) is Malaysian Ringgit. The consolidated financial statements are presented in Australian Dollars, which is Holista Colltech Ltd's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

(iii) Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different to the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expense for each statement of comprehensive income are translated at average exchange rate (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings are taken to shareholders equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in the result from ordinary activities as they arise.

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rates change. Any material gain or loss arising

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Foreign Currency Transactions and Balances (continued)

at the time of entering into hedge transactions is deferred and brought to account in the profit from ordinary activities over the lives of the hedges.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale, are deferred and included in the measurement of the purchase or sale. Gains and losses from speculative foreign currency transactions are brought to account in the profit from ordinary activities when the exchange rate changes.

k) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- (i) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.
- (ii) Rendering of services
Revenue from the rendering of services is recognised by reference to the stage of completion of the contract.
- (iii) Interest income
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.
- (iv) Dividends
Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Change in accounting policy

The Group has changed its accounting policy for dividends paid out of pre-acquisition profits from 1 July 2009 when the revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

l) Borrowing Costs

Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

m) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Leases (continued)

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(j).

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

n) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Income Tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Holista CollTech Limited recognises both its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated group.

o) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

p) Impairment of Assets

The Group assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****p) Impairment of Assets (continued)**

expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

q) Cash and Cash Equivalents

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

r) Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 45 days to 65 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

s) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis; and Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

u) Derecognition of Financial Assets and Financial Liabilities

(ii) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through arrangement'; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(iii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Impairment of Financial Assets

The Group assesses at each balance date whether a financial asset or group of financial assets is impaired.

(i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an

(ii) *Financial assets carried at amortised cost (continued)*

impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(iii) *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

w) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings – over 20 years

Plant and equipment – over 3 to 20 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) *Impairment*

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Property, Plant and Equipment (continued)

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(ii) Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amounts of the assets and depreciation based on the assets' original costs.

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance date.

(iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

x) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For personal use only

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

y) Intangible Assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

| | |
|-------------------------|----------|
| Capitalised development | 5 years |
| Licences | 10 years |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Intangible Assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

z) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

aa) Interest-Bearing Loans and Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

ab) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ac) Employee Leave Benefits

(i) *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

ac) Employee Leave Benefits (continued)

(ii) *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

ad) Share-Based Payment Transactions

(i) *Equity settled transactions:*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives; and
- the Employee Share Loan Plan (ESLP), which provides benefits to all employees, excluding senior executives and directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, further details of which are given in Note 15.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Holista CollTech Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects

- the extent to which the vesting period has expired and
- the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ad) Share-Based Payment Transactions (continued)

is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

(ii) Cash settled transactions:

The Group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of Holista CollTech Limited.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted (see Note 15). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each balance date up to and including the settlement date with changes in fair value recognised in profit or loss.

ae) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

af) Earnings Per Share

Basic earnings per share is calculated as net result attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net result attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTE 2: REVENUE AND EXPENSES

| | Consolidated | |
|---|--------------|------------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| (a) Revenue | | |
| Operating Activities | | |
| Sale of goods | 6,235 | 6,303 |
| Other Income: | | |
| Interest received on deposits | 50 | 236 |
| Income-government assistance | 430 | 474 |
| Profit on disposal of property, plant and equipment | - | 245 |
| Other | 15 | 12 |
| | 495 | 967 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 2: REVENUE AND EXPENSES (continued)

| | Consolidated | |
|--|--------------|--------------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| (b) Expenses | | |
| Net increase in finished goods stock | (223) | (54) |
| Raw materials and consumables used during production | 2,415 | 2,263 |
| Other expenses: | | |
| Distribution cost | 348 | 357 |
| Advertising and promotion | 654 | 612 |
| Office expenses and maintenance | 411 | 365 |
| Collie facility maintenance cost | 117 | - |
| Research & development – current year expense | 305 | 113 |
| R& D written off in prior year | - | 1,084 |
| Consultancy & professional services | 322 | 236 |
| Operating lease rental expenses | 173 | 93 |
| Audit fee | 77 | 21 |
| Other expenses | 207 | 413 |
| | <u>2,614</u> | <u>3,294</u> |

NOTE 3: INCOME TAX

| | | |
|--|----------|----------|
| Income tax recognised in profit or loss | 6 | 3 |
| The major components of tax expense are: | | |
| Current tax expense | 6 | 3 |
| Total tax expense | <u>6</u> | <u>3</u> |

The prima facie income tax expense on pre-tax accounting result from operations reconciles to the income tax expense in the financial statements as follows:

| | | |
|--|-----------|----------|
| Accounting loss before tax from continuing operations | (1,567) | (68) |
| Income tax benefit calculated at 30% | (470) | (20) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income | | |
| Impairment expense | 276 | - |
| Difference in overseas tax rates | 11 | 3 |
| Unrecognised tax losses | 189 | 20 |
| Income tax expense reported in the statement of comprehensive income | <u>6</u> | <u>3</u> |
| Current tax liabilities comprise: | | |
| Entities in the tax-consolidated group | <u>38</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 3: INCOME TAX (continued)

The Group has accumulated tax losses of \$3,329,551 (2009: \$3,287,753) that are available indefinitely for offset against future taxable profits of the companies in which losses arose.

At 30 June 2010, there is no recognised or unrecognised deferred income tax liability (none in 2009) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture, as the Group has no liability for additional taxation should such amounts be remitted.

Holista CollTech Limited and its controlled entities have entered into a tax funding agreement under which the 100% Australian owned resident subsidiaries compensate Holista CollTech Limited for all current tax payable assumed and are compensated by Holista CollTech Limited for any current tax receivable and deferred tax assets which relate to unused tax credits or unused tax losses that, under the tax consolidation legislation, are transferred to Holista CollTech Limited. These amounts are determined by reference to the amounts which are recognised in the financial statements of each entity in the tax consolidated group.

NOTE 4: SEGMENT REPORTING

Holista CollTech group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision maker) in assessing the performance and determining the allocation of resources.

The Group's business involves the process of extracting and purifying collagen from animal sources in Australia for sale, as well as the development of THC, Pristin and other topical products in Malaysia. The Malaysian business is the only business producing significant revenue, and as such, it currently represents the group's sole reportable segment. The directors are of the opinion that the statement of comprehensive income of Holista CollTech group is equivalent to the operating segment identified above and as such no further disclosure is being provided.

NOTE 5: EARNINGS PER SHARE

| | Consolidated | |
|---|-----------------|-----------------|
| | 2010 | 2009 |
| | Cents per share | Cents per share |
| <i>Basic loss per share:</i> | | |
| Continuing operations | 1.30 | 0.09 |
| Total basic loss per share | 1.30 | 0.09 |
| Net Loss | 1,572,895 | 71,032 |
| Loss from continuing operations | 1,572,895 | 71,032 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 120,602,915 | 77,000,000 |

Effect of dilutive securities

Share options – It is not considered that the 1,523,000 post consolidation (2009: 16,620,000 pre consolidation) unlisted options on issue have a dilutive effect on earnings per share as the Group incurred a loss for the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 6: CASH AND CASH EQUIVALENTS

| | Consolidated | |
|--------------------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 |
| Cash at bank and on hand | 162 | 16 |
| Security deposits | 2,821 | 2,324 |
| Short term deposits | 211 | - |
| | <u>3,194</u> | <u>2,340</u> |

Security deposits are restricted cash. In order to obtain various financing facilities, banks in Malaysia require cash to be deposited if other collateral is not available. These deposits are interest bearing and the interest is compounded and added to the principal.

Short – term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2010, the Group had available \$1,208,000 (2009: \$457,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Reconciliation to Statement of Cash Flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|--|--------------|--------------|
| Cash and cash equivalents as per statement of financial position | 3,194 | 2,340 |
| Bank overdraft | (785) | (585) |
| Cash and cash equivalents as per statement of cash flows | <u>2,409</u> | <u>1,755</u> |

Reconciliation of cash flow from operations with profit /(loss) after income tax

| | | |
|----------------------------------|---------|-------|
| Net Loss | (1,573) | (71) |
| Adjustments for non-cash items : | | |
| Depreciation and amortisation | 255 | 147 |
| Profit on disposal of asset | - | (245) |
| Impairment of goodwill | 920 | - |
| (Increase)/decrease in assets : | | |
| Receivables | (296) | (324) |
| Inventories | (591) | 330 |
| Other Assets | 33 | (543) |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 6: CASH AND CASH EQUIVALENTS (continued)

Reconciliation of cash flow from operations with profit /(loss) after income tax (continued)

| | Consolidated | |
|--|--------------|------|
| | 2010 | 2009 |
| Reconciliation of loss for the year to net cash used in operating activities : | | |
| Increase/(decrease) in liabilities : | | |
| Trade and other creditors | (729) | 995 |
| Net cash (used in)/generated from operating activities | (1,981) | 289 |

NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|-------------------|--------------|--------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Trade receivables | 1,091 | 949 |
| Other receivables | 380 | 275 |
| GST recoverable | 6 | - |
| | 1,477 | 1,224 |

(i) the average credit period on sales of goods and rendering of services is 75 days. Interest is not charged. No allowance has been made for estimated irrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experiences.

Sales for the Malaysian entities are either on a cash basis or via a distributor. The terms of payment from this distributor are 50% after net 45 days and 50% after net 65 days.

Aging of past due but not impaired

| | | |
|---------------|-------|-----|
| < 30 days | 687 | 619 |
| 30 – 60 days | 117 | 169 |
| 60 – 90 days | 253 | 124 |
| 90 – 120 days | 34 | 37 |
| Total | 1,091 | 949 |

NOTE 8: INVENTORIES

| | | |
|--|-------|-----|
| Raw materials – at cost | 1,172 | 606 |
| Finished goods – at net realisable value | 248 | 223 |
| | 1,420 | 829 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | Total \$'000 |
|--|--|----------------------------------|-----------------|
| | Freehold land and buildings \$'000 | Plant and equipment \$'000 | |
| Year ended 30 June 2010 | | | |
| At 1 July 2009, net of accumulated depreciation and impairment | 997 | 1,012 | 2,009 |
| Additions | 515 | 70 | 585 |
| Disposals | - | (3) | (3) |
| Acquired through business combination | 1,223 | 907 | 2,130 |
| Impairment | - | (21) | (21) |
| Depreciation charge for the year | (79) | (176) | (255) |
| At 30 June 2010, net of accumulated depreciation and impairment | 2,656 | 1,789 | 4,445 |
| At 1 July 2009 | | | |
| Cost or fair value | 1,028 | 1,403 | 2,431 |
| Accumulated depreciation and impairment | (31) | (391) | (422) |
| Net carrying amount | 997 | 1,012 | 2,009 |
| At 30 June 2010 | | | |
| Cost or fair value | 3,024 | 3,003 | 6,027 |
| Accumulated depreciation and impairment | (368) | (1,214) | (1,582) |
| Net carrying amount | 2,656 | 1,789 | 4,445 |
| <i>Impairment of property, plant and equipment:</i> | | | |
| During the year, recoverable amount was estimated for certain items of property, plant and equipment. An impairment loss of \$21,000 in total was recognised to reduce the carrying amount of certain of those assets to recoverable amount. The recoverable amount estimation was based on fair value less costs to sell and was determined at the cash-generating unit level being Alterni (M) Sdn. Bhd. | | | |
| Year ended 30 June 2009 | | | |
| At 1 July 2008, net of accumulated depreciation and impairment | 400 | 1,463 | 1,863 |
| Additions | 1,050 | 229 | 1,279 |
| Disposals | (418) | (560) | (978) |
| Impairment | - | (8) | (8) |
| Depreciation charge for the year | (35) | (112) | (147) |
| At 30 June 2009, net of accumulated depreciation and impairment | 997 | 1,012 | 2,009 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 9: PROPERTY, PLANT AND EQUIPMENT (continued)

| | Consolidated | | |
|---|--|----------------------------------|-----------------|
| | Freehold land and buildings \$'000 | Plant and equipment \$'000 | Total \$'000 |
| At 1 July 2008 | | | |
| Cost or fair value | 449 | 1,901 | 2,350 |
| Accumulated depreciation and impairment | (49) | (438) | (487) |
| Net carrying amount | 400 | 1,463 | 1,863 |
| At 30 June 2009 | | | |
| Cost or fair value | 1,028 | 1,403 | 2,431 |
| Accumulated depreciation and impairment | (31) | (391) | (422) |
| Net carrying amount | 997 | 1,012 | 2,009 |

The useful life of the assets was estimated as follows for both 2009 and 2010:

| | |
|---------------------|---------------|
| Buildings | 20 years |
| Plant and equipment | 3 to 20 years |

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2010 is \$48,000 (2009: \$65,000). Additions during the year include \$nil (2009: \$nil) of plant and equipment held under finance leases and hire purchase contracts.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Land and buildings with a carrying amount of \$1,005,000 (2009: \$997,000) are subject to a first charge to secure a loan from RHB Bank, Malaysia.

NOTE 10: INTANGIBLE ASSETS

| | Consolidated | | |
|--|-----------------------------------|--------------------|-----------------|
| | Patents and licenses \$'000 | Goodwill \$'000 | Total \$'000 |
| Gross carrying amount | | | |
| Balance at 1 July 2008 | - | - | - |
| Additions | - | - | - |
| Balance at 1 July 2009 | - | - | - |
| Additions | 23 | - | 23 |
| Acquisitions through business combinations | - | 920 | 920 |
| Impairment | - | (920) | (920) |
| Balance at 30 June 2010 | 23 | - | 23 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 10: INTANGIBLE ASSETS (continued)

| | Consolidated | | |
|--|-------------------------|----------|----------|
| | Patents and licenses | Goodwill | Total |
| | \$'000 | \$'000 | \$'000 |
| Accumulated amortisation and impairment | | | |
| Balance at 1 July 2008 | - | - | - |
| Amortisation expense | - | - | - |
| Balance at 1 July 2009 | - | - | - |
| Amortisation expense | 1 | - | 1 |
| Balance at 30 June 2010 | 1 | - | 1 |
| Net book value | | | |
| As at 30 June 2009 | - | - | - |
| As at 30 June 2010 | 22 | - | 22 |

The impairment of goodwill is due to the irrecoverable amount of several patents (\$920,000).

Patents and licenses are costs (\$22,000) incurred regarding patent filing for the cosmetic grade collagen in Japan, USA, Taiwan, and South Korea. It is believed that patents have value that will be adequately recouped with future sales. Indeed we are currently receiving requests from the US for our cosmetic grade collagen.

NOTE 11: TRADE AND OTHER PAYABLES (CURRENT)

| | Consolidated | |
|---|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 |
| Trade payables (i) | 269 | 288 |
| Non-trade creditors | 490 | 628 |
| | 759 | 916 |
| Other payables: | | |
| Due to Director for working capital – interest free | 371 | 880 |
| Due for land acquisition | 622 | - |
| | 993 | 880 |

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 12: BORROWINGS

| | Consolidated | |
|---|--------------|--------------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Current | | |
| <i>Loans carried at amortised cost</i> | | |
| Bank overdrafts | 785 | 585 |
| Bank loans | 323 | - |
| Obligations under finance leases and hire purchase contracts (refer to note 18) | 18 | 18 |
| Trade facilities | 1,450 | 1,929 |
| | <u>2,576</u> | <u>2,532</u> |
| Non-Current | | |
| <i>Loans carried at amortised cost</i> | | |
| Obligations under finance leases and hire purchase contracts (refer note 18) | 31 | 47 |
| Secured bank loans | 998 | 776 |
| Unsecured loans from related parties – Redeemable preference shares loan | 550 | - |
| | <u>1,579</u> | <u>823</u> |
| <i>Financing facilities available</i> | | |
| At balance date, the following financing facilities had been negotiated and were available: | | |
| Total facilities: | | |
| • bank overdraft | 1,009 | 595 |
| • bank loans | 1,323 | 776 |
| • trade facilities | 2,306 | 2,205 |
| • Redeemable preference shares loan | 550 | 1,081 |
| • Financial lease | 49 | 65 |
| | <u>5,237</u> | <u>4,722</u> |
| Facilities used at balance date | | |
| • bank overdraft | 785 | 585 |
| • bank loans | 1,321 | 776 |
| • trade facilities | 1,450 | 1,929 |
| • Redeemable preference shares loan | 550 | 1,081 |
| • Financial lease | 49 | 65 |
| | <u>4,155</u> | <u>4,436</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 12: BORROWINGS (continued)

| | Consolidated | |
|-----------------------------------|--------------|------------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Facilities unused at balance date | | |
| Bank overdraft | 224 | 10 |
| Bank loans | 2 | - |
| Trade facilities | 856 | 276 |
| | <u>1,082</u> | <u>286</u> |
| | | |
| Total facilities | 5,237 | 4,722 |
| Facilities used at balance date | 4,155 | 4,436 |
| Facilities unused at balance date | <u>1,082</u> | <u>286</u> |

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

Current

Floating charge

| | | |
|--|--------------|--------------|
| Cash and cash equivalents | 2,821 | 2,324 |
| Total current assets pledged as security | <u>2,821</u> | <u>2,324</u> |

Non-Current

First mortgage

| | | |
|-----------------------------|-------|-----|
| Freehold land and buildings | 1,005 | 997 |
|-----------------------------|-------|-----|

Floating charge

| | | |
|--|--------------|--------------|
| Inventories | 1,420 | 829 |
| Total non-current assets pledged as security | <u>2,425</u> | <u>1,826</u> |
| Total assets pledged as security | <u>5,246</u> | <u>4,150</u> |

Borrowings shown in the Statement of Financial Position relate to borrowings through the Malaysia Companies and are listed as follows:

Current

Secured

| | | |
|--------------------|-----|-------|
| Bankers acceptance | 796 | 1,859 |
| Revolving credit | 720 | - |
| Bank overdraft | 717 | 585 |
| Financial leases | 18 | 18 |

| | | |
|-----------------|--------------|--------------|
| Term loans: (1) | 73 | 71 |
| (2) | 29 | - |
| (3) | 222 | - |
| | <u>2,575</u> | <u>2,533</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 12: BORROWINGS (continued)

| | Consolidated | |
|---|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 |
| Non-current | | |
| <u>Secured</u> | | |
| - After 1 year but not later than 5 years | | |
| Term loans: (1) | 291 | 282 |
| (2) | 115 | - |
| (3) | 94 | - |
| Financial leases | 31 | 47 |
| | 531 | 329 |
| - After 5 years | | |
| Term loans: (1) | 470 | 493 |
| (2) | 29 | - |
| | 499 | 493 |
| | 3,605 | 3,355 |
| Current | | |
| <u>Unsecured</u> | | |
| Redeemable preference share loan | 550 | 1,081 |
| | 4,155 | 4,436 |

The borrowings of the Group and the Company are secured by the following:-

Term loan (1):

- i. As Principal Instrument, an "all monies" Facilities Agreement stamped to the amount of facilities advanced;
- ii. First party Absolute Assignment of all the rights, interest, title and benefits in and to property under document of Title No. PN21919, Lot 19, Seksyen 26, Bandar Petaling Jaya carried residential address suites 1201, 1202 and 1209, 12th Floor, Amcorp Trade Centre, PJ Tower, No. 18, Persiaran Barat, Off Jalan Timur, 46000 Petaling Jaya and beneficially owned by the Company;
- iii. Corporate Guarantee by a subsidiary company for \$ 900,998; and
- iv. Personal Guarantees for \$ 900,998 by Director of the Company.

Term loan (2) and revolving credit:

- i. As principal instrument, a Facility Agreement for the sum of \$ 900,998;
- ii. A registered open all monies 3rd party 1st legal charge stamped nominally over a freehold double storey corner residential property held under Geran 33655 Lot No. 10849, Mukim of Batu, District of Kuala Lumpur;
- iii. Memorandum of Deposit of Fixed Deposit totalling \$ 720,799
- iv. Personal Guarantee by Director of the Company; and
- v. Fixed and floating debenture of a subsidiary company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: BORROWINGS (continued)

Term loan (3):

- i. Personal Guarantee for the whole amount under Project Line 1 from Director of the Company;
- ii. First rank debenture incorporating fixed and floating charges over all present and future assets and undertakings of the Company;
- iii. Third party first rank debenture incorporating fixed and floating charges over all present and future assets and undertakings of a subsidiary company;
- iv. Corporate Guarantee; and
- v. Third party Deed of Assignment between Company's banker and a subsidiary company of all sales proceeds to be received / receivable from a distributor.

Bankers acceptance and bank overdraft:

- i. Facility Agreement;
- ii. Pledge of fixed deposits with licensed banks;
- iii. Memorandum of Deposit and Letter of set-off;
- iv. Corporate Guarantee by a subsidiary company; and
- v. Joint and several guarantee from certain Directors.

The bank overdraft of the Group bears interest rates of 4.48% to 7.80% (2009: 4.48% to 7.55%) and Nil (2009: 4.48% to 7.55%)

The bankers acceptance bears interest rates of 4.48% to 7.55% (2009: 4.48% to 7.05%).

The revolving credit bears interest rates of 6.43% to 6.83% (2009: Nil).

The term loan (1) is repayable over 240 monthly instalments (principal plus interest) of \$ 6,071 commencing on 1.7.2008. The term loan bears interest rates ranging from 4.05% to 4.55% (2009: 4.05% to 4.55%) per annum.

The term loan (2) is repayable over 96 monthly instalments (principal plus interest) of \$ 2,394 commencing on 12.2.2010. The term loan bears interest rates ranging from 6.55% to 6.80% (2009: Nil) per annum.

The term loan (3) is repayable over 32 months from the date of first disbursement (principal plus interest) of \$ 9,010 (month 5-12), \$ 21,624 (month 13-24) and \$ 32,436 (month 25-36) commencing on February 2010. The term loan bears interest rate of 7% (2009: Nil) per annum.

| | Consolidated | |
|---|--------------|--------|
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Share premium:- | | |
| 3,000 preference shares of \$360 premium plus cost each | 1,081 | - |
| Less: Redemption of preference shares | (531) | - |
| | 550 | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 12: BORROWINGS (continued)

The redeemable preference shares (RPS) were issued under the following terms and conditions:-

- i) The RPS shall be issued at a par value of 36 cents and with a premium of \$360;
- ii) The RPS shall be entitled to preferential cumulative dividends at the rate of 8% per annum of the aggregate amount of the issuance price of the RPS;
- iii) The RPS shall be non-voting;
- iv) The RPS shall be redeemable on or before the expiry of the maturity date at the discretion of the RPS holders; and
- v) The RPS holders shall have the right to the repayment of their capital in full in priority to the ordinary shareholders in the event of a winding-up.

NOTE 13: ISSUED CAPITAL

129,603,281 Ordinary shares issued and fully paid 7,554 2,572

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of share capital and issued shares do not have a par value.

| | 2010 | | 2009 | |
|---|----------------------|---------|---------------------|--------|
| | (post consolidation) | | (pre consolidation) | |
| | No. | \$'000 | No. | \$'000 |
| <i>Movement in ordinary shares on issue</i> | | | | |
| Balance at beginning of financial year | 770,000,000 | 2,572 | 117,142 | 2,572 |
| Acquisition of Holista CollTech Limited | 308,752,333 | 3,087 | - | - |
| | 1,078,752,333 | 5,659 | - | - |
| Consolidation exercise (10 for 1) | (970,877,239) | - | - | - |
| | 107,875,094 | 5,695 | - | - |
| Share issued during the year | | | | |
| -Placement (6 August 2009) | 5,000,000 | 500 | | |
| -Placement (14 October 2009) | 9,833,335 | 1,475 | | |
| -Exercise of Options (6 November 2009) | 1,520 | 1 | | |
| -Placement (19 November 2009) | 6,893,332 | 1,034 | | |
| -Share issue costs | - | (34) | | |
| -Redemption of preference shares | - | (1,081) | | |
| | 21,728,187 | 1,895 | - | - |
| Balance at end of financial year | 129,603,281 | 7,554 | 117,142 | 2,572 |

On 10th July 2009 Holista Biotech Sdn Bhd of Malaysia completed a reverse take-over of Colltech Australia Ltd. As such the comparative period figures relate to the Malaysian entity only. The brought forward number of shares will therefore not match up with the Australian entity shares in existence.

The Group has an employee share option plan under which options to subscribe for the Group's shares have been granted to certain executives and other employees (refer Note 15).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 14: ACCUMULATED LOSSES AND RESERVES

Retained earnings

Movements in accumulated losses were as follows:

| | Consolidated | |
|--|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 |
| Balance at beginning of financial year | (1,396) | (1,325) |
| Net loss for the year | (1,573) | (71) |
| Balance at end of financial year | (2,969) | (1,396) |

Reserves

| | Consolidated | |
|----------------------------------|---|-----------------|
| | Foreign currency translation reserve \$'000 | Total \$'000 |
| At 1 July 2008 | 19 | 19 |
| Currency translation differences | 9 | 9 |
| At 30 June 2009 | 28 | 28 |
| Currency translation differences | 33 | 33 |
| At 30 June 2010 | 61 | 61 |

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTE 15: SHARE BASED PAYMENT PLANS

The Company has adopted the CollTech Employee Share Option Plan for the purpose of recognising the efforts of, and providing incentives to, employees of the Company. Options are granted under the Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested and made exercisable in defined tranches to reflect the Company's development strategy and to align the interests of directors and executives to those of shareholders. Options are granted to directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15: SHARE BASED PAYMENT PLANS (continued)

| | 2010 No. (post consolidation) | 2010 Weighted average exercise price | 2009 No. (pre- consolidation) | 2009 Weighted average exercise price |
|--|--|--|--|--|
| Outstanding at the beginning of the year | 1,662,000 | \$0.40 | 12,010,000 | \$0.14 |
| Granted during the year | - | - | 8,500,000 | \$0.04 |
| Expired during the year | (139,000) | \$1.00 | (3,890,000) | \$0.12 |
| Outstanding at the end of the year | 1,523,000 | \$0.41 | 16,620,000 | \$0.06 |
| Exercisable at the end of the year | 1,523,000 | \$0.41 | 16,620,000 | \$0.06 |

Details of share options held by employees (including directors) and granted as remuneration outstanding at balance date:

| Grant Date | Expiry Date | Exercise Price | 2010 No. | 2009 No. |
|-------------|-------------|----------------|-------------|-------------|
| 02 Aug 2006 | 02 Aug 2009 | \$0.10 | | 350,000 |
| 09 Feb 2007 | 09 Feb 2010 | \$0.10 | | 1,040,000 |
| 30 Jul 2007 | 30 Jul 2010 | \$0.10 | 13,000 | 130,000 |
| 30 Jun 2008 | 30 Jun 2011 | \$0.04 | 660,000 | 6,600,000 |
| 22 Aug 2008 | 22 Aug 2011 | \$0.04 | 50,000 | 500,000 |
| 23 Oct 2008 | 23 Oct 2011 | \$0.04 | 800,000 | 8,000,000 |
| | | | 1,523,000 | 16,620,000 |

On 14 July 2009 the number of options in the company were consolidated on a one (1) for ten (10) basis.

NOTE 16: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 16: FINANCIAL INSTRUMENTS (continued)

| | Consolidated | |
|--|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 |
| (b) Categories of financial instruments | | |
| Financial assets | | |
| Cash and cash equivalents | 3,194 | 2,340 |
| Trade and other receivables | 1,471 | 1,224 |
| Financial liabilities | | |
| Trade and other payables | 759 | 916 |
| Borrowings | 4,155 | 4,436 |
| Other liabilities | 993 | 880 |

(c) Financial risk management objectives

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and commodity price risk including foreign exchange forward contracts to hedge the exchange rate and commodity price risk arising on its production.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

The group does not have sufficient investments that would expose it to unmanageable market risks.

(i) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date explained in Australian dollars are as follows:

| | Liabilities | | Assets | |
|-------------------|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Malaysian ringgit | 6,255 | 5,198 | 5,762 | 4,393 |

Foreign currency sensitivity analysis

The Group is exposed to Malaysian ringgit (RM) currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 16: FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis (continued)

against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

| | RM impact | |
|--------------------|--------------|--------|
| | Consolidated | |
| | 2010 | 2009 |
| | \$'000 | \$'000 |
| Profit or loss (i) | 245 | 339 |
| Equity (ii) | 427 | - |

(i) This is mainly attributable to the exposure outstanding on receivables and payables at year end in the Group.

(ii) This is mainly as a result of the changes in value of the Australian net assets due to currency fluctuations.

(ii) Interest rate risk management

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by entering into interest rate swaps against the hedged item.

The Group's exposures to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the change in interest rates.

At balance date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- net loss would increase by \$18,000 and decrease by \$18,000 (2009:\$11,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments.

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 16: FINANCIAL INSTRUMENTS (continued)

(e) Credit risk management (continued)

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details Group's expected maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Consolidated

| | Less than 1 month | 1 – 3 Months | 3 months – 1 year | 1 – 5 years | 5+ years |
|-----------------------------------|----------------------|-----------------|----------------------|----------------|----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2010 | | | | | |
| Non-interest bearing | 378 | 14 | 687 | - | - |
| Finance lease liabilities | 2 | 3 | 15 | 33 | - |
| Variable interest rate borrowings | 229 | 470 | 468 | 829 | 721 |
| Fixed interest rate borrowings | 62 | 125 | 685 | 1,003 | 1,033 |
| | 671 | 612 | 1,855 | 1,865 | 1,754 |

Consolidated

| | Less than 1 month | 1 – 3 Months | 3 months – 1 year | 1 – 5 years | 5+ years |
|-----------------------------------|----------------------|-----------------|----------------------|----------------|----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2009 | | | | | |
| Non-interest bearing | 880 | - | - | - | - |
| Finance lease liabilities | 2 | 3 | 15 | 52 | - |
| Variable interest rate borrowings | 719 | 1,063 | 67 | 210 | 168 |
| Fixed interest rate borrowings | 36 | 72 | 113 | 283 | 493 |
| | 1,637 | 1,138 | 195 | 545 | 661 |

NOTE 17: BUSINESS COMBINATION

Acquisition of Holista Biotech Sdn. Bhd.

On 10 July 2009, the parent entity acquired 100 % of Holista Biotech Sdn Bhd, a manufacturer of health supplements and lifestyle products. The purchase was satisfied by the issue of 770,000,000 ordinary shares in exchange for all the Holista Biotech Sdn Bhd ordinary shares owned by Dato' Dr Rajendran.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 17: BUSINESS COMBINATION (continued)

Due to the nature of the acquisition, the acquisition of Holista Biotech Sdn Bhd was considered a reverse acquisition for accounting purpose. Refer to Note 1 (r) the following represents the net assets and consideration paid by Holista Biotech Sdn Bhd for CollTech Australia Limited.

The assets and liabilities comprising the acquisition as at the date of acquisition are –

| | |
|-------------------------------|-------------------------|
| | \$ |
| Cash and cash equivalents | 408,340 |
| Trade and other receivables | 16,297 |
| Property, plant and equipment | 2,129,378 |
| Other assets | 23,133 |
| Intangible assets | 919,470 |
| Trade and other payables | (119,044) |
| Borrowings | (290,051) |
| Net assets acquired | <u>3,087,523</u> |
| Consideration paid | |
| - ordinary shares | <u>3,087,523</u> |

Acquisition related costs are included in other expenses in the statement of comprehensive income. Directly attributable costs of raising equity have been included as a deduction from equity.

NOTE 18: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into leases on certain commercial premises. These leases have an average life of 2 years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Within one year | 78 | 10 | 36 | 119 |
| After one year but not more than five years | 6 | 6 | - | 149 |
| More than five years | - | - | - | 92 |
| | <u>84</u> | <u>16</u> | <u>36</u> | <u>360</u> |

Finance lease and hire purchase commitments - Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 18: COMMITMENTS AND CONTINGENCIES

Financial lease commitments – Group as lessee (continued)

| | 2010 | | 2009 | |
|--|--|--|--|--|
| | Minimum lease payments \$'000 | Present value of lease payments \$'000 | Minimum lease payments \$'000 | Present value of lease payments \$'000 |
| Consolidated | | | | |
| Within one year | 20 | 18 | 20 | 18 |
| After one year but not more than five years | 34 | 31 | 52 | 47 |
| Total minimum lease payments | 54 | 49 | 72 | 65 |
| Less amounts representing finance charges | 5 | - | 7 | - |
| Present value of minimum lease payments | 49 | 49 | 65 | 65 |

Capital commitments

At 30 June 2010 the Group has no capital commitments that have not otherwise been booked as a liability. (2009: \$Nil)

NOTE 19: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Holista CollTech Limited and the subsidiaries listed in the following table.

| Name | Country of Incorporation | % Equity Interest | | Investment (\$'000) | |
|------------------------------|-----------------------------|-------------------|------|---------------------|------|
| | | 2010 | 2009 | 2010 | 2009 |
| Holista Biotech Sdn Bhd | Malaysia | 100 | - | 1,600,302 | - |
| Total Health Concept Sdn Bhd | Malaysia | 100 | - | - | - |
| Alterni (M) Sdn Bhd | Malaysia | 100 | - | - | - |
| Tropical Botanics Sdn Bhd | Malaysia | 100 | - | - | - |

Holista CollTech Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Holista CollTech Limited did not enter into any trading transactions with any related party during the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 19: PARENT ENTITY DISCLOSURES (continued)

Financial position

| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|---------------------|---------------------------|---------------------------|
| Assets | | |
| Current assets | 746 | 448 |
| Non-current assets | 3,596 | 2,130 |
| Total assets | 4,342 | 2,578 |
| Liabilities | | |
| Current liabilities | 73 | 410 |
| Total liabilities | 73 | 410 |
| Net assets | 4,269 | 2,168 |
| Equity | | |
| Issued capital | 16,044 | 13,068 |
| Reserves | 911 | 911 |
| Accumulated losses | (12,686) | (11,811) |
| Total equity | 4,269 | 2,168 |

Financial performance

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|----------------------------|---|---|
| Loss for the year | (1,795) | (1,920) |
| Total comprehensive income | (1,795) | (1,920) |

Contingent liabilities

| | | |
|--|-----|---|
| Guarantee provided under the deed of cross guarantee (i) | 315 | - |
|--|-----|---|

(i) Holista CollTech Limited has entered into a deed of cross guarantee with its wholly-owned subsidiary Holista Biotech Sdn Bhd.

NOTE 20: EVENTS AFTER THE BALANCE SHEET DATE

On 10 July 2010, 77,000,000 fully paid ordinary shares were released from escrow.

On 30 July 2010, 13,000 employee options exercisable at \$1.00 expired.

On 31 August 2010, the Group announced the appointment of a scientific advisory board.

On 7 September 2010, the Group announced the appointment of Dato' Dr M Rajendran as Managing Director and Chief Executive Officer for a period of 3 years backdated to 10 July 2009.

On 24 September 2010, the Group announced it had lodged a patent for low fat chips.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21: AUDITOR'S REMUNERATION

The auditor of Holista CollTech Limited is HLB Mann Judd.

| | Consolidated | | Parent | |
|--|--------------|--------|--------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Amounts received or due and receivable by HLB Mann Judd for: | | | | |
| An audit or review of the financial report of the entity and any other entity in the Group | 30,408 | 27,500 | 30,408 | 27,500 |
| Other services provided by HLB Mann Judd | 2,300 | - | 2,300 | - |
| Amount received or due and receivable by non HLB Mann Judd audit firms | 28,112 | - | - | - |

NOTE 22: DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

| | |
|-------------------------|--|
| Mr Cheok Huat (Mick) Aw | Chairman (non-executive) – appointed 7 August 2009 |
| Dato' Dr M Rajendran | Chief Executive Officer and Managing Director – appointed 10 July 2009 |
| Mr Michael Pixley | Director (non-executive) |
| Mr Ravindran Govindan | Director (non-executive) |
| Mr Fathil Bin Mohamed | Director (non-executive) |
| Mr Stephen Carter | Director (non-executive) – resigned 11 November 2009 |

(ii) Executives

| | |
|---------------------|---|
| Dr Deborah Cooper | General Manager (resigned 31 May 2010) |
| Mr Alan Boys | Company Secretary (resigned 20 November 2009) |
| Mr Benjamin Donovan | Company Secretary (appointed 20 November 2009) |
| Mr David Wilson | Chief Financial Controller (appointed 01 February 2010) |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 22: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(b) Option holdings of Key Management Personnel (Consolidated)

| Listed Options | Balance at beginning of period | Options exercised | Net change Other | Balance at end of period |
|-----------------------|--------------------------------|-------------------|------------------|--------------------------|
| 30 June 2010 | | | | |
| Directors | | | | |
| Mr Stephen Carter | 25,748 | - | (25,748) | - |
| Mr Michael Pixley | 33,333 | - | (33,333) | - |
| Mr Ravindran Govindan | 743,349 | - | (743,349) | - |
| Dr Fathil Bin Mohamed | 2,777,778 | - | (2,777,778) | - |
| | 3,580,208 | - | (3,580,208) | - |
| Executives | | | | |
| Dr Deborah Cooper | - | - | - | - |
| Mr Glen Brune | 11,236 | - | (11,236) | - |
| Mr Alan Boys | - | - | - | - |
| Total | 11,236 | - | (11,236) | - |

| Unlisted Options | Balance at beginning of period | Options exercised | Net change Other | Balance at end of period |
|-----------------------|--------------------------------|-------------------|------------------|--------------------------|
| 30 June 2010 | | | | |
| Directors | | | | |
| Mr Michael Pixley | 200,000 | - | - | 200,000 |
| Mr Ravidran Govindran | 200,000 | - | - | 200,000 |
| Mr Fathil Bin Mohamed | 200,000 | - | - | 200,000 |
| | 600,000 | - | - | 600,000 |

As at 30 June 2010, no other director held options

Executives

As at 30 June 2010, no executive held options

| | | | | |
|--------------|---------|---|---|---------|
| Total | 600,000 | - | - | 600,000 |
|--------------|---------|---|---|---------|

The directors held the same number of options in 2009 on a pre 10:1 consolidation. Mr Stephen Carter, who resigned on 11 November 2009 also held 200,000 options and are exercisable at any time.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 22: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel (Consolidated)

Ordinary shares held in Holista CollTech Limited (number)

| 30 June 2010 | Balance at beginning of period | Granted as remuneration | On Exercise of Options | Net Change Other | Balance at end of period |
|----------------------------|-----------------------------------|----------------------------|---------------------------|---------------------|-----------------------------|
| Directors | | | | | |
| Mr Michael Pixley | 793,333 | - | - | - | 793,333 |
| Mr Ravindran Govindran | 2,061,119 | - | - | - | 2,061,119 |
| Dr Fathil Bin Mohamed | 3,686,274 | - | - | 500,000 (i) | 4,186,274 |
| Mr Cheek huat (Mick) Aw | - | - | - | 4,000,000 (i) | 4,000,000 |
| Dato Dr M Rajen | - | - | - | 77,000,000 (ii) | 77,000,000 |
| Executives | | | | | |
| Mr Alan Boys | - | - | - | - | - |
| Mr Ben Donovan | - | - | - | - | - |
| Mr David Wilson | - | - | - | - | - |
| | 6,540,726 | | | 81,500,000 | 88,040,726 |
| 30 June 2009 | | | | | |
| Directors | | | | | |
| Mr Stephen Carter | 679,000 | - | - | 105,800 | 784,800 |
| Mr Michael Pixley | 7,933,334 | - | - | - | 7,933,334 |
| Mr Ravindran Govindran | 13,667,286 | - | - | 6,943,911 | 20,611,197 |
| Dr Fathil Bin Mohamed | 30,718,955 | - | - | 6,143,791 | 36,862,746 |
| Other Key Personnel | | | | | |
| Dr Deborah Cooper | 28,571 | - | - | - | 28,571 |
| Mr Glen Brune | 478,026 | - | - | - | 478,026 |
| Mr Alan Boys | - | - | - | - | - |
| | 53,505,172 | - | - | 13,193,502 | 66,698,674 |

(i) Placements

(ii) Acquisition on reverse acquisition of Holista Colltech Limited

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

NOTE 22: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel (Consolidated)

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Loans to Key Management Personnel (Consolidated)

There are no loans to directors or executives.

(e) Other transactions and balances with Key Management Personnel

Loan from Director to Holista Biotech Sdn Bhd

Dato Dr. Rajen

| | Balance at beginning of period \$'000 | Addition during the year \$'000 | Repayment \$'000 | Interest charged \$'000 | Exchange difference \$'000 | Balance at end of period \$'000 |
|--------------------------------|--|--|---------------------|-------------------------------|----------------------------------|--|
| For working capital | 880 | 290 | (806) | - | 7 | 371 |
| For repayment of external loan | - | 1,081 | (531) | - | - | 550 |
| Total | 880 | 1,371 | (1,337) | - | 7 | 921 |

DIRECTORS' DECLARATION

1. In the opinion of the directors of Holista CollTech Limited (the 'Company'):
 - a. the financial statements, notes and the additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
 - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

This declaration is signed in accordance with a resolution of the Board of Directors.



Mr Cheok Huat (Mick) Aw
Director

Dated this 30th day of September 2010

INDEPENDENT AUDITOR'S REPORT

To the members of
HOLISTA COLLTECH LIMITED:

Report on the Financial Report

We have audited the accompanying financial report of Holista CollTech Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 29 to 73.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Holista CollTech Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Holista CollTech for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



HLB MANN JUDD
Chartered Accountants



Perth, Western Australia
30 September 2010

W M CLARK
Partner

For personal use only

Additional Information for Listed Public Companies

Additional information included in accordance with the Listing Rules of the Australian Securities Exchange Limited.

The information is current as at September 9, 2010.

1. Shareholdings

Substantial shareholders of Holista CollTech Limited:

| Name of shareholder | Shares held |
|-------------------------------------|--------------|
| Dato' Dr. Rajendran Marnickavasagar | 77,000,00000 |
| Franjack Pty Ltd & Aurjoe Pty Ltd | 6,726,665 |

Distribution of equity – Listed securities:

| Size of holding | Number of shareholders |
|--------------------|------------------------|
| 1 – 1,000 | 246 |
| 1,001 – 5,000 | 294 |
| 5,001 – 10,000 | 137 |
| 10,001 – 100,000 | 229 |
| 100,001 – and over | 58 |
| Total | 964 |

At the date of this report there were 550 shareholders who held less than a marketable parcel of shares.

Listed securities in Holista CollTech Limited (HCT) are quoted on all member exchanges of the Australian Securities Exchange.

Twenty Largest Security Holders: Issued Shares

| Rank | Name of Shareholder | Number of Shares held | % of issued shares |
|------|---|-----------------------|--------------------|
| 1 | DR RAJENDRAN MARNICKAVASAGAR | 77,000,000 | 59.41 |
| 2 | FRANJACK PTY LTD & AURJOE PTY LTD | 6,726,665 | 5.19 |
| 3 | DR FATHIL BIN MOHAMED* | 4,186,274 | 3.23 |
| 4 | MR CHEOK HUAT AW | 4,000,000 | 3.09 |
| 5 | HSBC CUSTODY NOMINEES AUSTRALIA) LIMITED | 3,433,333 | 2.65 |
| 6 | CHANDRA SEKARAN P PERUMAL | 3,333,333 | 2.57 |
| 7 | MR RAVINDRAN GOVINDAN | 2,061,119 | 1.59 |
| 8 | MR KOK WAH ONG | 1,942,746 | 1.50 |
| 9 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD <CLIENT ACCOUNT> | 1,915,000 | 1.48 |

| | | | |
|----|---|--------------------|--------------|
| 10 | MR CHRIS CUFFE & MRS NATASHA CUFFE <C&N CUFFE FAMILY SUPER A/C> | 1,245,019 | 0.96 |
| 11 | TRISTESSE PTY LTD <THE BANKS-SMITH FAMILY A/C> | 1,050,000 | 0.81 |
| 12 | MR DAVID KAY KENNEDY & MRS FAY EVA KENNEDY <D K KENNEDY SUPER FUND A/C> | 893,334 | 0.69 |
| 13 | MS KIAN BEE KUOK | 855,773 | 0.66 |
| 14 | MR HARPAL SINGH | 850,000 | 0.66 |
| 15 | IRSS NOMINEES (21) LIMITED* | 793,333 | 0.51 |
| 16 | BAKERSFIELD HOLDINGS PTY LTD <THE SEPAROVIC FAMILY A/C> | 786,666 | 0.61 |
| 17 | FAIRVIEW HOLDINGS PTY LTD <THE MANJULE SUPER A/C> | 713,380 | 0.55 |
| 18 | CITICORP NOMINEES PTY LIMITED | 711,666 | 0.55 |
| 19 | ZAILAN BIN RAMLI | 666,666 | 0.51 |
| 20 | LIFESCIENCE SECURITIES LTD | 600,000 | 0.46 |
| | TOTAL | 113,764,304 | 87.68 |

Distribution of equity – Unlisted securities:

| ASX Code | Exercise price | Expiry date | Number of options | Number of holders |
|--------------|----------------|-------------|-------------------|-------------------|
| CAUAI | \$0.40 | 30 Jun 2011 | 660,000 | 4 |
| CAUAO | \$0.40 | 22 Aug 2011 | 50,000 | 2 |
| CAUAQ | \$0.40 | 23 Oct 2011 | 800,000 | 4 |
| Total | | | 1,510,000 | |

1. Company Secretary

The Company Secretary is Ben Donovan

2. Registers of Securities

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace, Perth WA 6000

3. Stock Exchange Listing

ASX: HCT

4. Restricted Securities

The company has no ordinary shares that are subject to escrow.

5. On Market buy-back

The Company does not have a current on-market buy-back facility.